

Climate Action: BMO Global Asset Management Approach

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Tackling the climate crisis is both a moral imperative and an economic necessity. We believe that investors can play a pivotal role in the journey to a decarbonized global economy.



Asset managers have a unique and critical role to play in the transition to global net zero emissions. We look forward to building partnerships both with our asset owner clients, and with the companies we invest in, to move together on the journey to making this a long-term shared goal.

Kristi Mitchem, CEO, BMO Global Asset Management

BMO Global Asset Management (BMO GAM)¹ considers climate change to be one of the defining issues of our generation, and fully supports the goals of the Paris Agreement². We also recognize that, in line with the findings of the Intergovernmental Panel on Climate Change³, global greenhouse gas emissions need to fall by 50% by 2030, and to net zero by 2050, in order to limit global warming to 1.5°C above pre-industrial levels.

As a supporter of the United Nations Principles for Responsible Investment (UN PRI)⁴, we recognize that tackling climate change is instrumental not only to achieving our commitments to Climate Action, but to our broader social and economic goals.

We are committed to playing our part in supporting the transition to a low-carbon global economy, recognizing that climate change presents both risks and opportunities that can affect our business, and that unabated climate change will cause economic damage that will put at risk our ability to deliver long-term financial returns. Working towards a climate secure future is something we see as an integral part of Bank of Montreal's business purpose to boldly grow the good in business and in life.

At BMO GAM we are already carbon neutral in our operations, as part of a wider commitment by BMO Financial Group (BMO FG)⁵. In December 2020 we built on this by committing to an ambition to reach net zero emissions by 2050 or sooner across all our assets under management⁶, and in March 2021, BMO FG announced its Net Zero Ambition, which includes a commitment to net zero financed emissions in lending by 2050, and the creation of the new BMO Climate Institute⁷. These high-level commitments form the cornerstone of our approach.

Our reporting framework

BMO FG – comprising Bank of Montreal and its subsidiaries – became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in January 2018, and this commitment covers all business entities, including BMO GAM.

BMO FG's approach is guided by our commitment to the Net-Zero Banking Alliance, the Partnership for Carbon Accounting Financials, and the Principles for Responsible Banking. BMO FG publicly reports on its environmental and social performance and targets in its annual Sustainability Report and Public Accountability Statement (PAS), and also publishes a Climate Report, structured in line with the TCFD recommendations⁸. More information on BMO FG's climate change impact, commitments, and environmental, social and governance (ESG) performance can be found on the [BMO: Our Impact website](#).

In December 2020, BMO GAM adopted an ambition to reach net zero emissions by 2050 or sooner across all our assets under management, as one of the founding supporters of the Net Zero Asset Managers Initiative⁹.

Within this broader framework, this statement sets out BMO GAM's approach to Climate Action using TCFD's disclosure framework focussing on our governance, strategy, risk management, and metrics and targets. Climate Action is a key theme to BMO GAM's responsible investing strategy. While this document focuses on BMO GAM's policies and practices, it also references our parent company (Bank of Montreal) where relevant.

¹ BMO Global Asset Management is the brand name that comprises BMO Asset Management Inc. and BMO Investments Inc..

² [United Nations, 2015: The Paris Agreement](#)

³ [IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways](#)

⁴ <https://www.unpri.org>

⁵ [BMO Financial Group 2021 Sustainability Report and Public Accountability Statement](#)

⁶ Read more [here](#). BMO GAM, together with its former asset management affiliates in Europe, Asia and the United States, made this commitment in December 2020

⁷ [BMO Climate Institute - Our Impact](#)

⁸ https://our-impact.bmo.com/wp-content/uploads/2022/03/BMO_2021_Climate-Report_EN_FINAL_aoda.pdf

⁹ <https://www.netzeroassetmanagers.org/>. BMO GAM, together with its former asset management affiliates in Europe, Asia and the United States, made this commitment in December 2020

Governance

This section explains the governance within BMO FG and BMO GAM with regards to climate-related risks and opportunities.

Board Oversight

Board-level oversight of sustainability, including climate change, is embedded within the charter of the Audit and Conduct Review Committee (ACRC) of BMO FG's Board of Directors. Additionally, the Risk Review Committee (RRC) assists the Board in fulfilling its risk management oversight responsibilities. In 2020 the RRC added a statement referencing climate change to the Risk Appetite Framework. In 2018, BMO FG developed and delivered online climate change risk and disclosure training for its whole Board of Directors and made it available to all current and new Board members. Further details of the Board's responsibilities and actions can be found within BMO FG's annual Climate Report, Sustainability Report, and Public Accountability Statement.

Management Oversight

Within BMO GAM, responsibility for oversight of the firm's responsible investment strategy lies with the Investment Committee (IC), chaired by BMO GAM's Chief Investment Officer. The IC approves all responsible investment policy statements.

Our Responsible Investment team has dedicated experts on climate change and climate-related issues. This team also provides data, training and research to portfolio managers and analysts throughout BMO GAM to support company analysis, integration and product development

Strategy

BMO FG's corporate purpose is to Boldly Grow the Good in Business and Life. We believe that financial prosperity and sustainability go hand in hand, and we seek to pursue our growth opportunities by balancing risk and opportunity to create value that is shared with the world around us.

As a supporter to the UN PRI, we have for many years used an integrated approach to our assessment of sustainability risks. Our approach has evolved as markets have developed resulting in greater access to information to help identify, measure and manage these risks. We apply a tailored approach to ESG integration, by investment strategy and asset class, to ensure that our analysis of ESG factors is relevant and meaningful to each team's investment process.

We also offer specialist responsible investment strategies, where sustainability considerations form a formal part of the investment mandate.

BMO GAM has engaged on the topic of climate change by calling on governments and regulators to put policies in place for an orderly transition to a low-carbon economy, and asking companies to implement strategies to incorporate climate risk into their business planning. Companies that are proactive in recognizing the transition, and providing solutions, may see their business benefit as actions are taken to achieve the goals of the Paris agreement.

BMO GAM has taken a range of measures to address climate risk and provide solutions to clients. These include:

- Integrating financially material ESG risks, including climate change, into the investment analysis process.
- Considering adverse impacts of ESG factors, including climate change, as part of the investment analysis process for mandates that accommodate this approach.
- Offering investment products that allow investors to direct capital towards climate solutions and/or avoid carbon-intensive investments.

- Implementing a comprehensive engagement and proxy voting approach aimed at encouraging investee companies to address climate risks.
- Supporting domestic and international public policy statements on climate change, such as the Canadian Investor Statement on Climate Change¹⁰ and the Global Investor Statement to Governments on the Climate Crisis¹¹.

We will seek to achieve this ambition through close partnership both with our clients, and with the companies we invest in, through continued engagement.

¹⁰ [Canadian Investor Statement on Climate Change - Responsible Investment Association \(riacanada.ca\)](https://www.riacanada.ca/canadian-investor-statement-on-climate-change)

¹¹ [2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf \(theinvestoragenda.org\)](https://www.theinvestoragenda.org/2021-global-investor-statement-to-governments-on-the-climate-crisis.pdf)

Risk Management

This section describes how BMO GAM applies our Climate Action strategy to assess climate-related risks and opportunities through ESG integration, engagement, and proxy voting.

Climate Action

Our Climate Action strategy focuses on five key sub-themes to guide our activities. Each theme considers both risks and opportunities:

1. Attaining Net Zero Emissions: Accelerating decarbonization of the economy towards net zero emissions before 2050.
2. Clean Energy Transformation: Transforming energy supply, systems and use to power a sustainable future.
3. Protecting our Natural Capital: Being responsible stewards of natural capital and critical ecosystem services.
4. Climate Resiliency: Building capacity to adapt and thrive in current and future climate conditions.
5. Advancing a Circular Economy: Fostering supply chain innovation and efficiency to minimize waste and advance towards a circular economy

ESG Integration

Research analysts and portfolio managers follow an investment process that considers the potential impact of ESG risks, including climate change, alongside other factors that determine the prospects for any company in whose securities we might invest. They have access to a range of ESG data and research, including both third-party data and proprietary information, as well as support in analyzing this information from our team of in-house responsible investment specialists. This analysis drives our asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

For listed equities and bonds, our Responsible Investment team provides data on portfolio-weighted carbon intensity versus sector peers, and flags those that are significantly over the sector average. This data, in conjunction with a broader analysis of material ESG issues, can then be used by fund managers to identify potentially high-risk companies for deeper analysis.

Some investment teams also seek opportunities to invest in companies that can contribute to solutions, either as part of the low-carbon energy transition or in addressing the physical impacts of climate change. Examples in our fundamental equity strategies have included water solutions companies, electric vehicle suppliers and renewable energy developers. In fixed income we have green bonds investments.

Engagement and proxy voting

At BMO GAM, we are committed to using our influence as shareholders to improve investee company ESG performance, with a focus on our two key themes, Climate Action and Social Equality. Our engagement program for listed equity and fixed income assets held by BMO GAM investment mandates is carried out in-house by our Responsible Investment team and in conjunction with a third party engagement and voting service provider through its responsible engagement overlay (**reo**[®]) service.

For listed asset classes, we set out our climate change engagement program principles in [‘Climate change engagement: A framework for the future’](#).

Our expectations for companies are aligned with those of key initiatives, particularly the Climate Action 100+ initiative¹². We expect companies in climate-exposed sectors to set a long-term ambition to achieve greenhouse gas emissions reductions consistent with net zero global greenhouse gas emissions by 2050. The statement of a long-term ambition is not sufficient on its own; we also look for robust strategies to implement this. These include, but are not limited to:

- Short and medium-term emissions targets, which include Scope 1 and 2 emissions, and Scope 3 for sectors where this is material
- Alignment of capital expenditure, and research and development expenditure aligned with an overarching climate strategy
- Alignment of lobbying activities, including those of trade associations
- Acknowledgement of the social impacts of transition, where relevant, using a Just Transition framework
- Link between the achievement of climate-related objectives and executive remuneration
- Board-level expertise and oversight of climate risks and opportunities
- Disclosure, in line with the recommendations of the TCFD
- Reflection of climate risk in financial accounts and audits where this is material

In addition to these universal expectations, we also have some sector-specific recommendations in key industries, recognizing their particular circumstances and their transition pathway. For instance:

- **Electric utilities:** We are calling on electric utility companies to phase out unabated coal-fired power by 2030 for developed countries, and 2050 for developing countries, in line with the recommendations of the Powering Past Coal Alliance¹³.
- **Oil & gas, mining:** We are working with several industries, in particularly those as part of the primary industry, to clarify the concept of “green revenue”, which would help inform their capital expenditure, and research and development expenditure.
- **Finance:** The concept of ‘Paris alignment’ is particularly challenging in the finance sector, given that climate impacts almost entirely arise through financed emissions; our engagement has helped us to identify and promote best practices, including the systematic incorporation of climate risks into lending criteria and efforts to measure financed emissions across lending and underwriting.

We have used both one-to-one and collaborative approaches. Key collaborations include:

- **Climate Action 100+:** BMO GAM is an active participant in Climate Action 100+, and engages with global priority companies on climate action as an investor lead and supporter roles.
- **Climate Engagement Canada:** In 2021 we became a founding investor member of Climate Engagement Canada¹⁴ (CEC), a collaborative engagement initiative similar to Climate Action 100+ focusing exclusively on Canadian companies to promote a just transition to net zero. We serve on the CEC’s Steering Committee.

As part of our engagement strategy, we identify potential laggard companies for additional engagement efforts. In addition to working with other investors to collaboratively engage high emitting companies through Climate Action 100+ and CEC, we perform our own analysis to identify the worst performers, using disclosure of Scope 1 and 2 emissions; whether the company was rated 0 or 1 by the Transition Pathway Initiative¹⁵; and whether it has been resistant to engagement on climate change.

Climate change and wider ESG issues are also considered when we make decisions on proxy voting¹⁶. We generally take a supportive stance on shareholder resolutions calling for stronger strategy and disclosure on climate change. In addition, our Corporate Governance Guidelines¹⁷ also state that where companies in high-impact sectors fail to provide investment-relevant climate disclosure, we may vote against management resolutions, such as the report and accounts or election of directors¹⁸.

We have raised concerns at companies spanning six key high-impact sectors: oil and gas, mining, materials, electric utilities, transportation and automotive, and financial institutions, either voting against or abstaining on management resolutions, or voting in favour but with a clear accompanying comment warning that we expect improvements. Our proxy voting results are disclosed online and included in our annual report.

¹² [Climate Action 100+](#)

¹³ [Declaration | Powering Past Coal Alliance](#)

¹⁴ [Climate Engagement Canada](#)

¹⁵ [Transition Pathway Initiative](#)

¹⁶ All our proxy voting decisions are publicly available here [Proxy Voting Dashboard | BMO Investments Inc. \(issgovernance.com\)](#)

¹⁷ https://www2.bmoam.com/corporate_governance_guidelines_en

¹⁸ [Voting for climate action | BMO Global Asset Management \(bmogam.com\)](#)

Metrics and Targets

BMO GAM produces internal carbon analytics for select funds in both equity and fixed income. We have so far disclosed this within impact reports for Responsible and Sustainable fund ranges.

Our operational emissions are disclosed as part of BMO FG's annual reporting and CDP¹⁹ response. BMO FG has a target to reduce operational greenhouse gas emissions by 30% by 2030 versus a 2019 baseline using science-based approaches, building on BMO FG's Carbon Neutral operations (since 2010) and matching 100% of global electricity use with renewable energy purchases (since 2020).

Total greenhouse gas emissions for BMO FG (including Scope 1 and 2, and Scope 3 categories 5 and 6) are disclosed annually.

Our key forward-looking target at BMO GAM is our ambition to align our investments with net zero emissions by 2050.

Progress towards BMO GAM's Climate Action goals is reported annually in our [Responsible Investment: Annual Report](#).

¹⁹ <https://www.cdp.net>

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